Laurel Lake Retirement Community, Inc. and Subsidiary

YEARS ENDED DECEMBER 31, 2012 AND 2011

HW&Co.

Howard, Wershbale & Co.
CPAs & Advisors

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

CONTENTS

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Independent Auditors' Report

The Board of Directors
Laurel Lake Retirement Community, Inc. and Subsidiary
Hudson, Ohio

We have audited the accompanying consolidated financial statements of Laurel Lake Retirement Community, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Laurel Lake Retirement Community, Inc. and Subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Howard, Wershbale & Co.

Cleveland, Ohio
March 7, 2013

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Current assets:		
Cash and cash equivalents	$ 7,496,339	$ 6,519,578
Accounts receivable, trade, net of allowance for doubtful accounts of $8,000 in 2012 and $6,400 in 2011	716,713	545,580
Entrance fees receivable	713,969	533,810
Prepaid expenses and other	29,849	42,830
Total current assets	8,956,870	7,641,798
Property and equipment:		
Land and improvements	4,901,875	4,441,028
Buildings and improvements	60,952,113	58,948,876
Equipment	4,925,982	4,775,865
Furniture and fixtures	4,116,527	2,948,222
	74,896,497	71,113,991
Less accumulated depreciation	34,303,605	31,975,678
	40,592,892	39,138,313
Construction in progress		410,574
	40,592,892	39,548,887
Other assets:		
Investments:		
Board-designated	18,683,472	17,023,284
Foundation	4,051,616	4,412,471
Other	113,585	352,264
	22,848,673	21,788,019
	$ 72,398,435	**$ 68,978,704**

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities:		
Accounts payable	$ 567,137	$ 583,748
Refunds due to residents	309,438	122,576
Accrued expenses:		
Salaries, wages and related liabilities	520,631	451,604
Compensated absences	230,541	226,390
Real estate taxes	323,916	161,804
Other	88,758	123,244
Current portion of note payable to Catholic Health Partners	1,835,364	1,751,301
Current portion of capital lease obligations	33,203	29,639
Refundable entrance fees	407,525	696,400
Due to Catholic Health Partners and affiliates	870,208	853,733
Total current liabilities	5,186,721	5,000,439
Note payable to Catholic Health Partners	25,073,832	29,909,221
Long-term capital lease obligations	2,941	36,144
Entrance fees received in advance and deposits	678,526	899,015
Accrued real estate taxes, net of current portion	576,008	643,763
Gift annuities payable	793,024	897,169
Deferred revenue	30,345,573	26,342,648
Total liabilities	62,656,625	63,728,399
Net assets:		
Unrestricted	6,626,925	1,135,644
Temporarily restricted	2,929,004	3,929,330
Permanently restricted	185,881	185,331
Total net assets	9,741,810	5,250,305
	$ 72,398,435	**$ 68,978,704**

See notes to consolidated financial statements.

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Revenue and other support:		
Resident services:		
Monthly service fees	$ 13,090,220	$ 12,404,369
Amortization of deferred revenue	5,612,268	5,097,129
Nursing services and other	4,238,087	4,265,614
Investment income (loss), net	1,742,257	(334,656)
Contributions	107,303	99,661
Net assets released from restrictions for operations	357,740	614,083
Total revenue and other support	25,147,875	22,146,200
Expenses:		
Salaries and wages	7,571,695	7,316,703
Employee benefits	2,295,719	2,327,377
Total employment expenses	9,867,414	9,644,080
Purchased services	2,181,879	2,261,317
Supplies	1,637,996	1,479,745
Utilities	1,270,242	1,138,880
Rent	11,578	16,489
Insurance	220,200	151,156
Interest	1,579,435	1,799,836
Management fees	712,652	282,228
Program expenses – Foundation	272,712	231,130
Operating expenses – Foundation	94,836	146,016
Depreciation and amortization	2,327,927	2,226,992
Miscellaneous	1,034,185	1,571,749
Total expenses	21,211,056	20,949,618
Excess of revenue and other support over expenses	3,936,819	1,196,582
Other changes in unrestricted net assets:		
Contributions, property and equipment	144,548	163,664
Net assets released from restriction for capital	1,385,262	6,831
Unrealized gains (losses) on other than trading securities, net	24,652	(49,420)
Increase in unrestricted net assets	5,491,281	1,317,657
Temporarily restricted net assets:		
Contributions	311,147	467,937
Unrealized gains (losses) on investments, net	145,049	(285,460)
Investment income, net	286,480	222,626
Net assets released from restrictions	(1,743,002)	(620,914)
Decrease in temporarily restricted net assets	(1,000,326)	(215,811)
Permanently restricted net assets:		
Contributions	550	1,405
Increase in permanently restricted net assets	550	1,405
Increase in net assets	4,491,505	1,103,251
Net assets, beginning of year	5,250,305	4,147,054
Net assets, end of year	**$ 9,741,810**	**$ 5,250,305**

See notes to consolidated financial statements.

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Increase in net assets	$ 4,491,505	$ 1,103,251
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized losses (gains) on investments, net	(1,151,562)	956,556
Realized gains on investments, net	(806,874)	(125,050)
Loss on disposal of property and equipment		6,966
Net increase in investments - Investment Management Program	(121,701)	(1,004,970)
Depreciation and amortization	2,327,927	2,226,992
Amortization of deferred revenue	(5,612,268)	(5,097,129)
Bad debt expense	4,082	1,494
Entrance fees received	9,513,354	5,109,663
Restricted contributions	311,697	469,342
Increase in accounts receivable and other assets	(103,714)	(308,465)
Increase in accounts payable and other current liabilities	319,775	717,809
Net cash provided by operating activities	9,172,221	4,056,459
Cash flows from investing activities:		
Expenditures for property and equipment	(3,371,932)	(1,424,671)
Proceeds from sale of investments - Foundation	2,360,897	627,548
Purchase of investments - Foundation	(1,580,093)	(503,069)
Net cash used in investing activities	(2,591,128)	(1,300,192)
Cash flows from financing activities:		
Change in gift annuities payable, net	(104,145)	(107,982)
Restricted contributions	(311,697)	(469,342)
Refunds of refundable fees	(407,525)	(910,200)
Payments on note payable and capital leases	(4,780,965)	(1,697,554)
Net cash used in financing activities	(5,604,332)	(3,185,078)
Net increase (decrease) in cash and cash equivalents	976,761	(428,811)
Cash and cash equivalents, beginning of year	6,519,578	6,948,389
Cash and cash equivalents, end of year	**$ 7,496,339**	**$ 6,519,578**

See notes to consolidated financial statements.

1. Summary of significant accounting policies:

Description of organization and basis of consolidation:

The accompanying consolidated financial statements include the accounts of Laurel Lake Retirement Community, Inc. (the Community) and Laurel Lake Retirement Community Foundation (the Foundation) (collectively, referred to as Laurel Lake). The Foundation is a not-for-profit foundation established to solicit donations for the benefit of Laurel Lake Retirement Community, Inc. The Foundation's sole member is Laurel Lake Retirement Community, Inc. All significant intercompany transactions have been eliminated in consolidation.

Laurel Lake, located in Hudson, Ohio, is a continuing care retirement community consisting of 293 residential units, 59 assisted living units and 75 skilled nursing beds. The Community operates under the "life care" concept in which residents enter into an occupancy agreement, which requires payment of a one-time entrance fee and a subsequent monthly service fee. Generally, these payments entitle residents to the use and privileges of the Community for life including certain nursing services provided in Laurel Lake's skilled nursing facility. The occupancy agreement does not entitle the residents to an interest in the real estate or other property owned by the Community.

The Community's sole member is Catholic Health Partners (CHP), an integrated acute and long-term care health system headquartered in Cincinnati, Ohio. Humility of Mary Health Partners (HMHP) is an affiliate of CHP.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

At December 31, 2012, and periodically throughout the year, Laurel Lake maintained balances in various accounts in excess of federally insured limits. Laurel Lake does not expect to incur any losses resulting from cash held in financial institutions.

1. Summary of significant accounting policies (continued):

Nursing services revenue and accounts receivable:

The Community receives a significant portion of its nursing service revenue from the Medicare program. Government payment systems and related funding for nursing facilities are subject to periodic review and modification by governmental payors. Changes in government payment systems and the effects are uncertain, and therefore such changes could have a material impact on the Community's future financial condition, results of operations and cash flows. The approximate Medicare revenue as a percentage of total nursing services revenue was 38% in 2012 and 30% in 2011.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates under an acuity-based classification system. Rates are adjusted annually by the Center for Medicare Services on October 1, in conjunction with the beginning of the Federal fiscal year. Federal rates are subject to a county-specific wage adjustment based on the relative hospital wage level of the geographic area of the facility compared to the national average hospital wage level.

Collection of accounts receivable in the ordinary course of business is dependent on the Medicare program's ability to make timely payments to health care providers. Amounts included in accounts receivable, net of credit balances, with the program totaled $196,568 at December 31, 2012 and $146,492 at December 31, 2011.

In evaluating the collectibility of accounts receivable and determination of an estimated allowance for doubtful accounts, the Community considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of accounts by payor type and general industry conditions. Amounts considered uncollectable are written off against the allowance for doubtful accounts.

Laws and regulations governing the Medicare program are complex and subject to interpretation. Potential noncompliance with laws and regulations can be subject to future government review and interpretation as well as regulatory action. The Community believes that it is in compliance with all applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of noncompliance.

Investments:

Investments in equity securities that have readily determinable fair values and all investments in debt securities are measured at fair value. Investment income (including realized gains and losses on investments, unrealized gains and losses on trading securities, interest and dividends) is included in the performance indicator, excess of revenue and other support over expenses, unless the income is restricted by donor or law. Net changes in unrealized gains or losses on other than trading securities are excluded from the performance indicator.

1. Summary of significant accounting policies (continued):

Investments (continued):

Laurel Lake invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could have a material effect on the consolidated balance sheets, consolidated statements of activities and changes in net assets and cash flows.

Endowments:

Laurel Lake's endowment consists of several individual funds established for a variety of purposes. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated funds are primarily intended to support various current and future programs. However, board-designated funds, including principal, are expendable for any purpose, at any time, as may be deemed appropriate and as approved by the Board of Directors, and as such, are not considered to be an endowment by management.

Interpretation of relevant law:

Laurel Lake has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Laurel Lake classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Laurel Lake considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of Laurel Lake and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Laurel Lake
- The investment policies of Laurel Lake

1. Summary of significant accounting policies (continued):

Interpretation of relevant law (continued):

Laurel Lake's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Laurel Lake must hold in perpetuity. In order to satisfy its long-term rate-of-return objectives, Laurel Lake relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Laurel Lake targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Since the donor has not restricted the use of investment income (interest and dividend, realized and unrealized gains and losses) on the donor-restricted endowment funds, Laurel Lake has the ability to utilize those earnings for its operations.

Property and equipment:

Property and equipment are stated at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation (straight-line method) is provided in amounts sufficient to amortize the cost of the related assets over their estimated useful lives. The cost of capital leased assets totaled $134,000 at December 31, 2012 and 2011. Accumulated amortization at December 31, 2012 was $107,200 and at December 31, 2011 was $80,400. Capital leases are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Depreciation and amortization expense on property and equipment was $2,327,927 in 2012 and $2,226,992 in 2011.

At December 31, 2011, the Community was in process of renovating a portion of its skilled nursing facility. The project was completed and placed in service in 2012. Included in the accompanying consolidated balance sheets is construction in progress totaling $410,574 at December 31, 2011.

Beneficial interest in charitable remainder trusts:

The Foundation has irrevocable rights to receive a portion of the specified cash flows from certain charitable remainder trusts. The recorded value of the trusts, included in other long-term assets on the consolidated balance sheets, is based on the fair value of the Foundation's interest in the trusts as reported by the trustees. Due to the time and other restrictions of the Foundation's access to the assets held in these trusts, the Foundation's interests in the charitable remainder trusts are recorded as temporarily restricted net assets. Adjustments to the carrying value of the trust assets are recognized as increases or decreases in temporarily restricted contributions in the consolidated statements of activities and changes in net assets.

1. Summary of significant accounting policies (continued):

Gift annuities:

The Foundation receives assets from donors under gift annuity agreements designating the Foundation as the trustee and charitable remainder beneficiary of these assets. The terms of the trust agreements require that the Foundation, as trustee, invest the assets and pay an annuity to the annuitant, the donor or a specified beneficiary over the remainder of the annuitants' or specified beneficiary's life. Upon the death of the named individual, the Foundation may use its remainder interest for any purpose consistent with its mission.

The Foundation has recorded the donated assets in the consolidated financial statements as investments and recorded a liability for the actuarial present value of the future annuity payments to reflect the time value of money (through discounts for interest). The discount rate used to compute the liability in 2012 and 2011 was 6%. These rates are commensurate with the risk associated with the ultimate payment of the obligation. The Foundation records a contribution to temporarily restricted net assets for the difference between the assets received and the recorded liability for future annuity payments.

Entrance fee deposits and receivables:

Entrance fee deposits represent amounts paid by prospective residents who have signed a residence agreement to reserve a specific living unit or to reserve a place on the waiting list for available units. Generally, a deposit of at least 10% of the entrance fee is collected when the residence agreement is signed. The balance of the fee is payable on or before the date the resident moves in, or otherwise establishes residency. Prospective residents may cancel their residence agreements at any time prior to occupancy and receive a full refund of the entrance fee deposit, less an application fee of $1,000 under certain circumstances.

The Community enters into promissory notes recorded as entrance fee receivables on the consolidated balance sheets, with certain new residents who sign resident contracts. Interest accrues at 4% per annum. Principal plus accrued interest is receivable by the Community in one installment when certain conditions are met. The Community believes these notes are fully collectible. Therefore, there is no allowance for uncollectible amounts at December 31, 2012 and 2011.

1. Summary of significant accounting policies (continued):

Deferred revenue and refundable entrance fees:

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-01, *Continuing Care Retirement Communities-Refundable Advance Fees (Subtopic 954-430), Health Care Entities-Deferred Revenue.* The amendments require that a continuing care retirement community recognize a deferral of revenue when a contract between a continuing care retirement community and a resident stipulates that (1) a portion of the advance fee is refundable if the contract holder's unit is reoccupied by a subsequent resident, (2) the refund is limited to the proceeds of reoccupancy, and (3) the legal environment and the entity's management policy and practice supports the withholding of refunds under condition (2). Consequently refundable advanced fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of the reoccupancy should be accounted for and reported as a liability. For nonpublic companies, the amendments in this ASU are effective for fiscal periods beginning after December 15, 2013. Early adoption is permitted. The amendments in this ASU should be applied retrospectively by recording a cumulative-effect adjustment to opening unrestricted net assets as of the beginning of the earliest period presented. The Community has elected not to adopt the amendments of the ASU in its financial statements for the year ended December 31, 2012. Management has not determined the effect of these amendments to its financial statements.

The Community offers three types of resident contracts (Plan A, Plan B and Plan C) with regard to the one-time entrance fee paid in addition to the monthly service fees. Under Plan A agreements, residents or their estates receive a refund equal to their entrance fee less a 10% cancellation fee and less 1.5% of their entrance fees for each month of residency. If the resident leaves within five years or expires within one year of establishing residency, the Community's responsibility is deemed fulfilled and no refund is given. Plan A entrance fees are recorded as deferred revenue in the consolidated balance sheets, which is being amortized over the estimated remaining life expectancy of each resident.

Under Plan B agreements, 94% of a resident's entrance fee is refundable upon re-occupancy of the unit (including receipt of the entrance fee from the new occupant). Plan B entrance fees are accounted for as deferred revenue in the consolidated balance sheets. The refundable portion of Plan B entrance fees (94% of the fee) is amortized over the estimated remaining useful life of the facility. The nonrefundable portion of Plan B entrance fees (6% of the fee) is amortized over the estimated life expectancy of each resident.

Under Plan C agreements, residents or their estates receive a refund upon re-occupancy of the unit (including receipt of the entrance fee from the new occupant). The refund is equal to their entrance fee less the sum of: a) 10% of the entrance fee paid and b) 1.5% of the entrance fee paid for each month of residency up to a maximum amount of 40% of the entrance fee. Plan C entrance fees are accounted for as deferred revenue in the consolidated balance sheets. The refundable portion of Plan C entrance fees (50% of the fee) is amortized over the estimated useful life of the facility. The nonrefundable portion of Plan C entrance fees (remaining 50% of fee) is amortized over the estimated life expectancy of each resident.

1. Summary of significant accounting policies (continued):

Deferred revenue and refundable entrance fees (continued):

The amount of contractually refundable entrance fees under resident occupancy agreements is approximately $18,340,000 at December 31, 2012 and $13,840,000 at December 31, 2011, and is included in deferred revenue in the consolidated balance sheets. The estimated amounts of refundable entrance fees are reflected as a current liability in the consolidated balance sheets and total $407,525 at December 31, 2012 and $696,400 at December 31, 2011. Certain contracts require an immediate refund if the resident expires in the first twelve months of residency or cancels the agreement within the first five years. Refunds of this type totaled $91,757 in 2012. There were no refunds of this type in 2011. Entrance fees received in advance of residency and deposits are accounted for and reported as liabilities on the consolidated balance sheets.

In 2012, the Community began offering a pre-residency membership agreement. Under the terms of the agreement, the member is required to pay a fee which entitles them to guaranteed residency by age 75. The agreement also entitles the member to discounted assisted living and skilled nursing services. At December 31, 2012, the Community has received $115,676 in deposits under these agreements. They are recorded as entrance fees received in advance and deposits on the consolidated balance sheets.

Net assets:

Temporarily restricted net assets are those whose use by Laurel Lake has been limited by donors to a specific time period or purpose from resources on which donors place no restriction or that arise as a result of the operations of Laurel Lake for its stated purposes. Earnings on investments of temporarily restricted net assets are added to temporarily restricted net assets. Temporarily restricted contributions, which are primarily related to the Foundation, are recorded as additions to temporarily restricted net assets. The temporarily restricted net assets are primarily comprised of charitable gift annuities received and the life care fund.

Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. Included within permanently restricted net assets are proceeds from gifts related to the Veraar Campus Endowment Fund. This fund utilizes investment income for maintenance of memorial and honorarium plantings on the Community campus.

Excess of revenue and other support over expenses:

The consolidated statements of activities and changes in net assets include a "performance indicator," excess of revenue and other support over expenses. Changes, if any, in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include net asset transfers to and from affiliates, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets) and changes in net unrealized gains or losses on other than trading securities. Changes in net unrealized gains or losses on trading securities are included in the performance indicator.

1. Summary of significant accounting policies (continued):

Obligation to provide future services and the use of facilities to current residents:

The Community annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future service obligations (FSO) and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with a corresponding charge to expense. As of December 31, 2012 and 2011, no such liability was determined to be required. The discount rate used to estimate the FSO was 6% in 2012 and 2011.

Management agreement and amounts paid to Catholic Health Partners and Affiliates:

Laurel Lake has a ten-year management agreement with CHP under which CHP provides certain management services to Laurel Lake. For these services, Laurel Lake pays CHP an annual management fee. The term of the agreement is subject to automatic extension so that the agreement will always have a term of ten years from the current extension date. Laurel Lake paid $200,183 in 2012 and $210,432 in 2011 to CHP under this management agreement. Laurel Lake also paid additional fees of $512,469 in 2012 and $71,796 in 2011 to CHP for administrative support services. All the fees are included in management fee expense in the consolidated statements of activities and changes in net assets.

Laurel Lake contributed approximately $512,000 in 2012 and $499,000 in 2011 in connection with their unsponsored community benefit program which is included in various expenses on the consolidated statements of activities. This program provides community services to the poor and other benefits to the broader community.

Reclassifications:

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

2. Investments and investment income:

The fair value of investments at December 31 were:

	2012	2011
Board-designated:		
Investment Management Program (A)	$ 18,683,472	$ 17,023,284
Foundation:		
Mutual funds (B)	4,051,616	4,412,471
	$ 22,735,088	$ 21,435,755

2. Investments and investment income (continued):

	2012	2011
Net investment return is summarized as follows:		
Net investment income, included in unrestricted revenue:		
Interest and dividends, net	$ 203,770	$ 273,863
Net increase (decrease) in unrealized gain, trading securities	981,861	(621,676)
Net realized gains on sales of securities	556,626	13,157
	1,742,257	(334,656)
Net investment gain included in temporarily restricted revenue:		
Interest and dividends, net	36,232	110,733
Net realized gains on sales of securities	250,248	111,893
	286,480	222,626
Unrealized gains (losses) on other than trading securities:		
Unrestricted	24,652	(49,420)
Temporarily restricted	145,049	(285,460)
	169,701	(334,880)
Total net investment income (loss)	$ 2,198,438	$ (446,910)

(A) Laurel Lake participates in the Catholic Health Partners' Investment Management Program (Investment Management Program). The Investment Management Program is managed by twelve outside managers and consists of marketable debt and equity securities (classified as trading securities) and cash and cash equivalents.

(B) Laurel Lake's mutual fund investments consist of proprietary charitable trust funds that are not traded on an exchange and those recorded at fair value based on quoted market prices. Fair value on proprietary charitable trusts is based on the market prices of the underlying assets held within the trusts.

3. Fair value measurement:

Fair value measurement under accounting principles generally accepted in the United States of America is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

3. Fair value measurement (continued):

Accounting principles generally accepted in the United States of America defines a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – observable inputs such as quoted prices in active markets.
- Level 2 – inputs other than quoted prices in active markets that are observable either directly or indirectly.
- Level 3 – unobservable inputs for which there is little or no market data.

Financial instruments carried at fair value at December 31, 2012 and 2011 were as follows:

December 31, 2012	Fair Value at December 31,	Quoted Prices in Active Markets Level 1	Other Observable Inputs Level 2
Mutual funds:			
Fixed income	$ 952,240	$ 449,478	$ 502,762
Equities	3,099,376	879,534	2,219,842
Money market accounts	126,477	126,477	
Investment Management Program	18,683,472		18,683,472
	$ 22,861,565	$ 1,455,489	$ 21,406,076
December 31, 2011			
Mutual funds:			
Fixed income	$ 1,067,027	$ 610,598	$ 456,429
Equities	3,345,444	1,084,282	2,261,162
Money market accounts	93,277	93,277	
Investment Management Program	17,023,284		17,023,284
	$ 21,529,032	$ 1,788,157	$ 19,740,875

For mutual funds and money market accounts, fair value is determined by quoted prices in active markets. For investments held in the Investment Management Program, fair value is based on the net asset value ("NAV") of units held at year end. They have significant unobservable inputs, are not traded in an active market, are subject to liquidity restrictions and are nontransferable. The investments underlying the NAV of the units held by Laurel Lake consist of primarily fixed income funds, U.S. large and small cap equity funds, international equity funds and other assets.

4. Financing agreements:

Financing agreements consist of the following at December 31:

	2012	2011
Note payable to Catholic Health Partners	$ 26,909,196	$ 31,660,522
Capital lease obligations	36,144	65,783
	26,945,340	31,726,305
Less current portion	1,868,567	1,780,940
	$ 25,076,773	$ 29,945,365

Laurel Lake has a note payable to Catholic Health Partners with a final maturity of May 2024. CHP manages a portfolio of debt obligations that includes both fixed and variable rate debt. CHP charges its affiliates, including Laurel Lake, interest on the blended cost of this debt which is adjusted periodically (5.5% at December 31, 2012 and 2011). The note is collateralized by all assets of the Community. During 2012, Laurel Lake made an additional $3,000,000 principal payment on the note.

Interest expense to CHP was $1,573,430 in 2012 and $1,790,670 in 2011.

At December 31, 2012, the scheduled principal payments under the note payable to Catholic Health Partners are as follows:

Year ending December 31,	Amount
2013	$ 1,835,364
2014	1,923,469
2015	2,015,795
2016	2,112,553
2017	2,213,956
Thereafter	16,808,059
	$ 26,909,196

4. Financing agreements (continued):

At December 31, 2012, annual payments due under capital lease obligations for equipment are as follows:

Year ending December 31,	Amount
2013	$ 35,626
2014	2,969
Total minimum lease payments	38,595
Less amount representing interest	2,451
Present value of net minimum principal payments	36,144
Less amount due within one year	33,203
	$ 2,941

5. Taxes:

Laurel Lake is recognized as exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as a charitable organization qualifying under Internal Revenue Code Section 501(c)(3).

Laurel Lake is no longer subject to Federal income tax examinations by tax authorities for years before 2009.

On October 18, 1993, Laurel Lake granted a third mortgage on its real property to the Village of Hudson, Ohio to secure payments in lieu of property taxes under an agreement between the Village of Hudson and the Community. Annual payments are based on specified percentages of property taxes that would otherwise be due on the real property consisting of the residential units subject to taxation. Amounts and percentages per the agreement are as follows:

Period	Amount Due
2011-2013	Annually, the greater of $314,000 or 45% of the tax due without exemption
2014–2017	Annually, the greater of $421,000 or 60% of the tax due without exemption
2018	The greater of one-twelfth of $421,000 or 60% of the tax due without exemption plus the difference between (i) the amount paid in 2018 and (ii) the greater of $421,000 or 60% of the tax due without exemption
After 2018	100% of the tax due without exemption

5. Taxes (continued):

These amounts are expensed as incurred and totaled $314,000 in 2012 and 2011. This expense is included in miscellaneous expense on the consolidated statements of activities and changes in net assets.

6. Endowments:

Laurel Lake's disclosure of its endowment net asset composition by type of fund as of December 31, 2012 and 2011, follows:

Endowment net asset composition by type of fund as of December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 2,873,746	$ 185,881	$ 3,059,627

Changes in endowment net assets for the year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 3,874,072	$ 185,331	$ 4,059,403
Investment return:			
Investment income	286,480		286,480
Net realized and unrealized gains	145,049		145,049
Total investment return	431,529		431,529
Contributions	311,147	550	311,697
Appropriation of endowment assets for expenditure	(1,743,002)		(1,743,002)
Endowment net assets, end of year	$ 2,873,746	$ 185,881	$ 3,059,627

Endowment net asset composition by type of fund as of December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 3,874,072	$ 185,331	$ 4,059,403

6. Endowments (continued):

Changes in endowment net assets for the year ended December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,089,883	$ 183,926	$ 4,273,809
Investment return:			
Investment income	222,626		222,626
Net realized and unrealized losses	(285,460)		(285,460)
Total investment return	(62,834)		(62,834)
Contributions	467,937	1,405	469,342
Appropriation of endowment assets for expenditure	(620,914)		(620,914)
Endowment net assets, end of year	$ 3,874,072	$ 185,331	$ 4,059,403

Reconciliation of endowment temporarily restricted net assets to the temporarily restricted net assets on the consolidated balance sheets at December 31, 2012 and 2011 is as follows:

	2012	2011
Temporarily restricted endowment net assets	$ 2,873,746	$ 3,874,072
Other restricted net assets:		
Charitable remainder trusts	12,785	55,345
Other	42,473	(87)
Temporarily restricted endowment net assets	$ 2,929,004	$ 3,929,330

7. Retirement plan:

The Community has a 403(b) defined contribution retirement plan (the Plan), for all eligible employees. The Plan provides for employee contributions ranging from 1% to 6% of compensation through salary reduction. The Community has elected to contribute 1% of compensation for each eligible employee. In addition, the Community has elected to match either 33% or 50% of an employee's contribution depending on the length of service, as defined by the Plan. Total expense under the Plan was approximately $150,000 in 2012 and $136,000 in 2011.

8. Insurance coverage:

Laurel Lake is insured under CHP's property, professional, general and excess liability policy and reimburses CHP for insurance costs incurred on Laurel Lake's behalf ($220,200 in 2012 and $151,156 in 2011). Also, Laurel Lake is insured under HMHP's Health Insurance Self Funded Plan. Laurel Lake has no separately recorded professional or general liability accrual recorded at December 31, 2012 and 2011 as Laurel Lake management does not believe there are claims that require a reserve for potential payment of deductible amounts. There may be unknown incidents, which may result in the assertion of claims, however, Laurel Lake management does not believe there are any material potential liabilities.

9. Functional expenses:

Laurel Lake provides general health care services and resident services to residents of the community in addition to incurring general and administrative and fundraising expenses as follows:

	2012	2011
Residential services	$ 13,323,572	$ 13,120,399
Health care services	4,892,558	4,923,447
General and administrative	2,900,090	2,748,439
Fundraising	94,836	157,333
	$ 21,211,056	$ 20,949,618

10. Consolidated statements of cash flows:

	2012	2011
Cash paid during the year for:		
Interest	$ 1,579,435	$ 1,799,836
Supplemental schedule of noncash investing and financing activities:		
Contributions received of property and equipment	$ 144,548	$ 163,664

11. Real estate taxes:

In January 2012, the Community was notified its application for exemption from taxation of certain real property had been dismissed. As a result, the accompanying consolidated balance sheets included an additional accrual of $605,012 at December 31, 2011.

In June 2012, the Community reached an agreement with Summit County for the repayment of these taxes. The terms of the agreement required monthly payments of $13,391 for sixty months beginning in August 2012. The current and long-term portions of these amounts are included in the consolidated balance sheets at December 31, 2012 and 2011.

12. Potential sale of Laurel Lake Retirement Community, Inc.:

In October 2012, CHP authorized an unrelated party to act as a financial advisor in the potential sale of certain of its facilities. Laurel Lake was named as one of the facilities. As of the date of our report, March 7, 2013, no agreement has been entered into by CHP or Laurel Lake related to a sale.

13. Subsequent events:

In preparing these financial statements, Laurel Lake management has evaluated events and transactions for potential recognition or disclosure through March 7, 2013, the date Laurel Lake's financial statements were available to be issued.

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Independent Auditors' Report on Accompanying Supplementary Information

The Board of Directors
Laurel Lake Retirement Community, Inc. and Subsidiary
Hudson, Ohio

We have audited the consolidated financial statements of Laurel Lake Retirement Community, Inc. and Subsidiary as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 7, 2013 which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole shown on pages 2 to 20 of this report. The supplementary information included in this report on pages 22 through 24 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Howard, Wershbale & Co.

Cleveland, Ohio
March 7, 2013

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2012

ASSETS

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	$ 7,316,742	$ 179,597		$ 7,496,339
Accounts receivable, trade, net of allowance for doubtful accounts of $8,000	716,713			716,713
Entrance fees receivable and other	737,116		$ (23,147)	713,969
Prepaid expenses and other	29,849			29,849
Total current assets	8,800,420	179,597	(23,147)	8,956,870
Property and equipment:				
Land and improvements	4,901,875			4,901,875
Buildings and improvements	60,952,113			60,952,113
Equipment	4,925,982			4,925,982
Furniture and fixtures	4,116,527			4,116,527
	74,896,497			74,896,497
Less accumulated depreciation	34,303,605			34,303,605
	40,592,892			40,592,892
Construction in progress				
	40,592,892			40,592,892
Other assets:				
Investments:				
Board-designated	18,683,472			18,683,472
Foundation		4,051,616		4,051,616
Other	100,800	12,785		113,585
	18,784,272	4,064,401		22,848,673
	$ 68,177,584	**$ 4,243,998**	**$ (23,147)**	**$ 72,398,435**

LIABILITIES AND NET ASSSETS

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation	Eliminations	Consolidated
Current liabilities:				
Accounts payable	$ 567,137	$ 23,147	$ (23,147)	$ 567,137
Refunds due to residents	309,438			309,438
Accrued expenses:				
Salaries, wages and related liabilities	520,631			520,631
Compensated absences	230,541			230,541
Real estate taxes	323,916			323,916
Other	88,758			88,758
Current portion of note payable to Catholic Health Partners	1,835,364			1,835,364
Current portion of capital lease obligations	33,203			33,203
Refundable entrance fees	407,525			407,525
Due to Catholic Health Partners and affiliates	870,208			870,208
Total current liabilities	5,186,721	23,147	(23,147)	5,186,721
Note payable to Catholic Health Partners	25,073,832			25,073,832
Long-term capital lease obligations	2,941			2,941
Entrance fees received in advance and deposits	678,526			678,526
Accrued real estate taxes, net of current portion	576,008			576,008
Gift annuities payable		793,024		793,024
Deferred revenue	30,345,573			30,345,573
Total liabilities	61,863,601	816,171	(23,147)	62,656,625
Net assets:				
Unrestricted	6,313,983	312,942		6,626,925
Temporarily restricted		2,929,004		2,929,004
Permanently restricted		185,881		185,881
Total net assets	6,313,983	3,427,827		9,741,810
	$ 68,177,584	**$ 4,243,998**	**$ (23,147)**	**$ 72,398,435**

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2012

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation	Eliminations	Consolidated
Revenue and other support:				
Resident services:				
Monthly service fees	$ 13,090,220			$ 13,090,220
Amortization of deferred revenue	5,612,268			5,612,268
Nursing services and other	4,238,087			4,238,087
Investment income, net	1,660,246	$ 82,011		1,742,257
Contributions		107,303		107,303
Net assets released from restrictions for operations		357,740		357,740
Total revenue and other support	24,600,821	547,054		25,147,875
Expenses:				
Salaries and wages	7,571,695			7,571,695
Employee benefits	2,295,719			2,295,719
Total employment expenses	9,867,414			9,867,414
Purchased services	2,181,879			2,181,879
Supplies	1,637,996			1,637,996
Utilities	1,270,242			1,270,242
Rent	11,578			11,578
Insurance	220,200			220,200
Interest	1,579,435			1,579,435
Management fees	712,652			712,652
Program expenses - Foundation		272,712		272,712
Operating expenses - Foundation		94,836		94,836
Depreciation and amortization	2,327,927			2,327,927
Miscellaneous	1,034,185			1,034,185
Total expenses	20,843,508	367,548		21,211,056
Excess of revenue and other support over expenses	3,757,313	179,506		3,936,819
Other changes in unrestricted net assets:				
Contributions, property and equipment	144,548			144,548
Net assets released from restriction for capital	1,385,262			1,385,262
Unrealized losses on other than trading securities, net		24,652		24,652
Increase in unrestricted net assets	5,287,123	204,158		5,491,281
Temporarily restricted net assets:				
Contributions		311,147		311,147
Unrealized gains on investments, net		145,049		145,049
Investment income, net		286,480		286,480
Net assets released from restrictions		(1,743,002)		(1,743,002)
Decrease in temporarily restricted net assets		(1,000,326)		(1,000,326)
Permanently restricted net assets:				
Contributions		550		550
Increase in permanently restricted net assets		550		550
Increase (decrease) in net assets	5,287,123	(795,618)		4,491,505
Net assets, beginning of year	1,026,860	4,223,445		5,250,305
Net assets, end of year	**$ 6,313,983**	**$ 3,427,827**	$	**$ 9,741,810**

LAUREL LAKE RETIREMENT COMMUNITY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012

	Laurel Lake Retirement Community, Inc.	Laurel Lake Retirement Community Foundation	Eliminations	Consolidated
Cash flows from operating activities:				
Increase (decrease) in net assets	$ 5,287,123	$ (795,618)		$ 4,491,505
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Unrealized gains on investments, net	(981,861)	(169,701)		(1,151,562)
Realized gains on investments, net	(556,626)	(250,248)		(806,874)
Net increase in investments - Investment Management Program	(121,701)			(121,701)
Depreciation and amortization	2,327,927			2,327,927
Amortization of deferred revenue	(5,612,268)			(5,612,268)
Bad debt expense	4,082			4,082
Entrance fees received	9,513,354			9,513,354
Restricted contributions		311,697		311,697
Decrease (increase) in accounts receivable and other assets	(39,552)	42,560	$ (106,722)	(103,714)
Increase (decrease) in accounts payable and other current liabilities	319,775	(106,722)	106,722	319,775
Net cash provided by (used in) operating activities	10,140,253	(968,032)		9,172,221
Cash flows from investing activities:				
Expenditures for property and equipment	(3,371,932)			(3,371,932)
Proceeds from sale of investments - Foundation		2,360,897		2,360,897
Purchase of investments - Foundation		(1,580,093)		(1,580,093)
Net cash provided by (used in) investing activities	(3,371,932)	780,804		(2,591,128)
Cash flows from financing activities:				
Change in gift annuities payable, net		(104,145)		(104,145)
Restricted contributions		(311,697)		(311,697)
Refunds of refundable fees	(407,525)			(407,525)
Payments on note payable and capital leases	(4,780,965)			(4,780,965)
Net cash used in financing activities	(5,188,490)	(415,842)		(5,604,332)
Net increase (decrease) in cash and cash equivalents	1,579,831	(603,070)		976,761
Cash and cash equivalents, beginning of year	5,736,911	782,667		6,519,578
Cash and cash equivalents, end of year	$ 7,316,742	$ 179,597	$	$ 7,496,339